

HISTORY OF PENSIONS AND OTHER BENEFITS IN AUSTRALIA

(This special article has been contributed by the Department of Social Security)

At the turn of the century there was no social security system in Australia. Charitable relief was provided to needy persons by voluntary organisations, in some cases with the assistance of government grants.

The main areas of need which attracted charitable assistance were the 'sick poor', neglected children, old people who were destitute and women who had been deserted or who had 'fallen' pregnant. The unemployed were assisted by grants of wages, or rations, in return for relief work provided by the government.

The beginnings

The Commonwealth of Australia was formed on 1 January 1901 by federation of the six States under a written constitution which, among other things, authorised the new Commonwealth Parliament to legislate in respect of age and invalid pensions. In the event, the Commonwealth did not exercise this power until June 1908 when legislation providing for the introduction of means-tested 'flat-rate' age and invalid pensions was passed. The new pensions, which were financed from general revenue, came into operation in July 1909 and December 1910 respectively, superseding State age pension schemes which had been introduced in New South Wales (1900), Victoria (1900) and Queensland (1908) and an invalid pension scheme introduced in New South Wales (1908).

The new pension was paid to men from age 65. It was paid to women at age 60, but not until December 1910. The age pension was also subject to a residence qualification of 25 years which was reduced to 20 years shortly after introduction. A residence qualification of five years applied to the invalid pension.

In 1912 the Commonwealth introduced a maternity allowance. This allowance was a lump sum cash grant payable to a mother on the birth of a child.

1914-1940

No new Commonwealth social security payments were introduced until World War II. There were, however, several notable developments in the States, including: in New South Wales, the introduction of widows' pensions in 1926 and child endowment in 1927; and in Queensland the introduction of an unemployment insurance scheme in 1923.

The principal changes in age and invalid pensions during this period were in the rates and the means test. A provision for automatic increases in pension rates on the basis of changes in the cost of living was introduced in 1933, repealed in 1937 and reintroduced in 1940. Measures which would have placed pensions on a social insurance basis and introduced a number of new cash payments were proposed in 1928 and 1938 but were not implemented.

The Commonwealth Department of Social Services was created in 1939 and became fully operative in 1941. Pensions had previously been administered within the Department of the Treasury.

1941-1949

Child endowment was introduced in 1941. This provided a regular flat-rate cash payment, free of means test, to parents (usually the mother) for children after the first child. The New South Wales child endowment scheme was abolished at the same time.

Widows' pensions were introduced in 1942. As in the case of age and invalid pensions they were flat-rate means-tested payments financed from general revenue. Those eligible included deserted wives, divorced women, and women whose husbands were in prison or a mental hospital. A residence qualification of five years applied. The new scheme superseded the New South Wales widows' pension.

There were several developments in 1943. Funeral benefits were introduced; these were lump sum grants payable for the funeral costs of a pensioner. Wife's allowance was introduced for an incapacitated male pensioner with a dependent spouse. A reciprocal agreement on social security was concluded with New Zealand. In addition, automatic cost-of-living adjustments to pension rates were repealed when their application would have resulted in a rate reduction.

There was a major extension of the social security system in 1945 with the introduction of Commonwealth unemployment and sickness benefits in the form of flat-rate payments financed from general revenue and subject to an income test. The Queensland scheme of unemployment insurance was superseded by the new benefits. The introduction of these new benefits took place against a background of major changes in the revenue-raising functions of the Commonwealth and the States. The Commonwealth took sole responsibility for income tax in 1942, and thus expanded substantially its capacity to raise revenue. While the exigencies of World War II had much to do with this change, its broader effect was to facilitate an expansion of the Commonwealth's role in social security as in other areas.

There was a further development of specific relevance to social security in 1945. The Commonwealth split the personal income tax into two components. One, the social services contribution, was to be used exclusively to finance social security cash payments. Revenue from the contribution was paid into the National Welfare Fund, from which all such cash payments were to be made, but there was no link between personal contributions and entitlements. The fund was supplemented by subventions from payroll tax and general revenue. In the event, the social services contribution was again merged into a single personal income tax in 1950. All cash payments are now made direct from general revenue.

Doubts had arisen during the early forties about the constitutional validity of the Commonwealth legislation in respect of cash payments other than age and invalid pensions, which were specifically within the powers of the Commonwealth. Accordingly, a referendum was held in 1946 under which the Commonwealth sought an extension of its powers in the areas of social security and health. The referendum was carried. In 1947 the various social security cash payments were consolidated into a single Social Services Act.

1950-1969

In 1950 child endowment was extended to cover the first child. It was further extended in 1964 to cover children who, after reaching the normal disqualifying age of 16, continued as full-time students but were aged under 21.

The Pensioner Medical Service was established in 1951. In effect, it provided free medical treatment to pensioners through participating doctors who were paid a fee for treating pensioners free of direct charge. The service also made free hospital treatment available to pensioners.

In 1952 the means test on age and invalid pension eligibility was largely removed for permanently blind people. It was completely removed in 1954.

A reciprocal agreement on social security was concluded with the United Kingdom in 1953.

In 1956 pensioners with more than one child became entitled to additional pension for each child after the first. Previously, an allowance had been payable only for the first child.

Supplementary assistance (now known as rent assistance) was introduced in 1958 for a single pensioner paying rent, and wholly or substantially dependent on his or her pension. A married pensioner whose spouse was not a pensioner was also eligible.

A major change took place in the pension means test in 1961. The separate property and income tests, which previously had formed the means test, were combined into a composite whole called the merged means test under which means were calculated by adding personal earnings to 10 per cent of the value of property.

In 1962 there was a reduction from 20 to 10 years in the residence qualification for age pension.

A standard rate of pension was introduced in 1963. Before that, the maximum rate of pension for a single person was the same as for a married person. The new standard rate gave single pensioners a higher payment in recognition of the economies available to a married couple from sharing living expenses. Also in 1963 a payment known as mother's allowance was added to the rate of widow's pension. In 1965 an equivalent payment was extended to single age and invalid pensioners with children.

In 1965 wife's allowance was extended to cover any pensioner's wife not herself entitled to a pension. Previously it was payable only if the pensioner was incapacitated.

Sheltered employment allowance was introduced in 1967 for persons employed in sheltered workshops and qualified to receive invalid pension. The allowance was payable as a supplement to the sheltered employee's workshop earnings in lieu of invalid pension, but at the same rate. A more liberal means test applied to the allowance than to invalid pension but was superseded by the tapered means test in 1969.

A concession commonly called 'special temporary allowance' was introduced in 1968 to assist pensioners on the death of a spouse. In effect, the allowance provided for the continuing payment, for 12 weeks after the death of the spouse, of the total pension payable to the couple.

Also in 1968 the residence qualification of five years for widow's pension was abolished in respect of women becoming widows while living in Australia. In the same year the Commonwealth agreed to subsidise the States to assist mothers with the sole care of children and not eligible for widow's pension.

A major liberalisation of the pension means test took place in 1969. The rate of reduction in pension was changed from 100 per cent to 50 per cent of the amount by which a pensioner's means exceeded the maximum level not affecting the pension rate. The new arrangement became known as the 'tapered means test'. It was accompanied by a measure to restrict the availability of the Pensioner Medical Service. Under this measure, people who qualified for pensions only because of the tapered means test did not become entitled to Pensioner Medical Service benefits as well.

1970 onwards

The earlier part of this period saw an expansion of existing provisions. The latter part has been one of consolidation and rationalisation. The major events are described below.

Introduction and abolition of benefits

In 1970 a 'long-term rate' of sickness benefit became payable after six weeks in receipt of benefit. At the same time such beneficiaries paying rent became eligible to receive a supplementary allowance (now known as rent assistance). The long term rate was absorbed in 1973.

The wife's allowance was replaced by wife's pension in 1972. The new pension was payable to an age, invalid or repatriation service pensioner's wife who was not entitled to a pension herself.

In 1973 supporting mother's benefit was introduced for single mothers not entitled to widow's pension. The new benefit was payable after a six-month waiting period, during which time the States remained responsible for the single mother's income support under the Commonwealth-State cost-sharing arrangements introduced in 1968. The supporting mother's benefit was extended in 1977 to single fathers, including widowers and divorcees, and renamed supporting parent's benefit. The six-month waiting period for this benefit was abolished in 1980 when the States withdrew from the Commonwealth-State cost-sharing arrangements. The six-month waiting period still applying to certain categories of widow's pension was also abolished in 1980.

Also in 1973 a double orphan's pension was introduced for the guardian of a child whose parents are both dead. The pension is a flat-rate non-income-tested payment.

In 1974 a free-of-income-test, flat-rate payment called handicapped child's allowance was introduced. This was for parents of severely handicapped children requiring constant care and attention at home. The allowance was extended to cover less severely handicapped children in low-income families in 1977.

Family allowances were introduced in 1976. This was effected by substantially increasing child endowment rates, extending eligibility for students to include those aged 21 to 24 years (inclusive), and abolishing tax rebates for children and students. Low-income families gained substantially from these changes.

The spouse carer's pension was introduced in 1983. It was payable to a man caring for his severely handicapped or invalid wife who required constant care and attention in the matrimonial home. In 1985 it was subsumed by the carer's pension which provides income support to a person with limited means who is providing constant and long-term care to a severely disabled spouse or near relative receiving an age or invalid pension.

Also in 1983, Family Income Supplement (FIS) was introduced in the form of an income-tested, non-taxable allowance payable in respect of children to the main breadwinner in low-income families not receiving a pension or benefit. Payment was transferred to the family allowance recipient (usually the mother) in 1984.

Two other new payments were introduced in 1983. Mobility allowance became payable to severely handicapped persons unable to use public transport, and rehabilitation allowance (broadly equivalent to an invalid pension) became payable to persons assisted through the Commonwealth Rehabilitation Service.

Remote area allowance was introduced in 1984. This allowance is payable to pensioners and beneficiaries who reside in specified areas of Tax Zone A.

In 1985 payment of family allowance in respect of student children who have attained the age of 18 was discontinued, except in the case of certain low-income families. An income test was introduced in 1987 on family allowance for students aged 16 and 17. A special addition to family allowances became payable in 1985 to certain families with multiple births (three children or more) until the children reach six years of age.

Rent assistance was extended to unemployment beneficiaries in 1986.

Young homeless allowance was introduced in 1986 to provide additional assistance to unemployment and sickness beneficiaries under 18 years who are homeless and without parental or custodial support.

Fringe benefits changes

In 1973, the conditions of eligibility for access to the Pensioner Medical Service (now Pensioner Health Benefits) were tightened by freezing the disqualifying levels of income. These limits remained frozen until 1979. Further increases in the limits took place in 1979 and 1982. Automatic indexation was introduced in 1983.

Eligibility for Pensioner Health Benefits, and all associated Commonwealth fringe benefits, was extended to recipients of supporting parents' benefits in 1979 and sickness benefits in 1980. Entitlement to only a limited range of fringe benefits had been originally granted to supporting mothers and later, supporting fathers.

In 1983, the basic income limits applicable to persons eligible for 'fringe benefits' became indexed in line with movements in prices. Also in 1983, people who gave up an invalid pension or sheltered employment allowance to take up open employment became eligible for Health Care Cards free of income test for a period of 12 months. The aim was to improve incentives for invalid pensioners to re-enter the open workforce. In 1985 fringe benefits were made subject to an assets test as well as the income test. The assets test limits are indexed annually in line with price movements.

Means tests

The pension means test has undergone several significant changes since 1970. It was abolished for pensioners aged 75 and over in 1973 and for pensioners aged 70 and over in 1975. The means test was replaced by an income test in 1976. In 1978 the rate of the free-of-income-test age pension for those aged 70 years and over was frozen. In 1983 this frozen rate became subject to a special income test which will eventually be overtaken by the normal income test.

An assets test on pensions was introduced in 1985. It operates alongside the income test. Assets test limits are increased in line with price movements.

The income test for unemployment and sickness benefits was liberalised several times between 1980 and 1986.

Indexation and rates

In 1973 the single and married rates of unemployment and sickness benefits were increased for all age groups to bring them up to an appropriate standard equivalent to the married rates of pension. The long-term sickness benefit rate was superseded by this measure.

The pension and benefit rates were increased in 1975 in line with price movements, except in the case of unemployment and sickness benefits for single people aged under 18. In 1977, this link became automatic.

Indexation was withdrawn from the rate of unemployment benefit for single persons 18 years and over in 1978. It was restored in 1983 but again withdrawn for those aged 18, 19

and 20 years in 1985. Ad hoc increases have been granted for those beneficiaries since, and further steps announced are designed to integrate unemployment benefits for persons under 21 with education allowances.

Portability and residence

In 1972 reciprocal (pension portability) agreements were concluded with Italy, Greece, Turkey and Malta. These were superseded in 1973 by the introduction of general portability of Australian pensions.

In 1974 the residence test applying to invalid pension was abolished for persons whose permanent incapacity or blindness occurred in Australia.

Pensions granted after 1 July 1986 are now subject to a residence proportion formula for portability purposes.

Other benefits

In conclusion, it should perhaps be added that the private sector continues to play an important role in the provision of financial support to people in major contingencies. Private employers are required by State government legislation (and equivalent measures in the Commonwealth Territories) to insure their employees against work injuries and specified occupational diseases; industrial awards usually provide for a measure of paid sick leave; and occupational pension schemes are becoming increasingly available to employees.

Employees in the public sector are also entitled to work injury benefits and paid sick leave, which are financed from general revenue. They are also covered by occupational pension schemes to which the government (as the employer) and employees both contribute.

Coverage against the financial consequences of road injuries is provided through insurance (third party insurance is compulsory for motorists). A large volume of life insurance is also written.

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